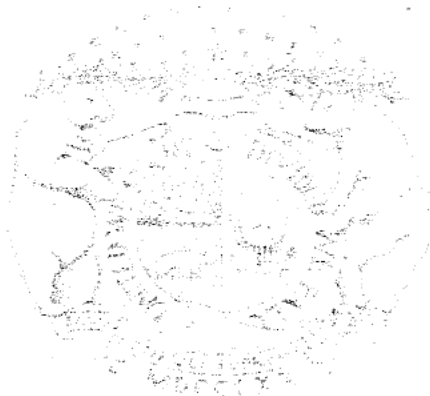


REPORT OF  
PRE-LICENSING EXAMINATION

ESSEX BENEFITS  
INSURANCE COMPANY, INC.

AS OF  
JANUARY 31, 2005



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

	<u>Page</u>
SALUTATION.....	1
SCOPE OF EXAMINATION	
Procedures .....	1
HISTORY	
General .....	2
Capital Stock.....	2
Management .....	2
Conflict of Interest.....	4
Corporate Records .....	4
AFFILIATED COMPANIES	
Holding Company, Subsidiaries and Affiliates.....	4
Organizational Chart.....	5
Intercompany Transactions .....	5
FIDELITY BOND AND OTHER INSURANCE .....	6
EMPLOYEE BENEFITS AND PENSION PLANS .....	6
STATUTORY DEPOSITS	
Deposits with the State of Missouri .....	6
Deposits with Other States.....	7
INSURANCE PRODUCTS AND RELATED PRACTICES	
Territory and Plan of Operations .....	7
Policy Forms and Underwriting Practices.....	7
REINSURANCE .....	7
ACCOUNTS AND RECORDS.....	8
FINANCIAL PROJECTIONS.....	8
BALANCE SHEET .....	9
GENERAL COMMENTS AND RECOMMENDATIONS .....	10
SUBSEQUENT EVENTS.....	11
CONCLUSION .....	11
ACKNOWLEDGMENT .....	12
VERIFICATION .....	12
SUPERVISION .....	12

March 2, 2005  
St. Louis, MO

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your financial examination warrant, a pre-licensing examination has been made of the records, affairs and financial condition of

**Essex Benefits Insurance Company, Inc.**

hereinafter referred to as "Essex" or as "the Company". Its main administrative office is located at 12399 Gravois Road, St. Louis, Missouri 63127-1702 and its telephone number is (314) 656-3000. This report of the pre-licensing examination, which commenced on February 28, 2005, and was finalized on March 2, 2005, is respectfully submitted.

**SCOPE OF EXAMINATION**

Procedures

This pre-licensing examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed. Financial information as of January 31, 2005, was evaluated during this examination.

## **HISTORY**

### **General**

Essex Benefits Insurance Company, Inc. was organized on February 6, 2004, and received a certificate of incorporation from the Missouri Secretary of State on September 12, 2004. The Company has applied for a certificate of authority to operate as a property and casualty insurance company under Chapter 379.010 to 379.105 RSMo, and is awaiting approval. The Company's immediate parent is Delta Dental Plan of Missouri.

### **Capital Stock**

Pursuant to its articles of incorporation, the Company is authorized to issue up to 15,000 shares of common stock with a par value of \$100 per share. To date, no shares have been issued. The Company has received capital contributions totaling \$3,000,000 from its parent, Delta Dental Plan of Missouri. The Company has not issued any surplus debentures.

Pursuant to Section 379.010 RSMo (Authorized lines of business; capital and surplus requirements), the Company must have capital of at least \$1,200,000 and surplus of at least \$1,200,000 in order to obtain a certificate of authority. The Company meets these requirements.

### **Management**

The articles of incorporation call for a board of directors consisting of nine members. Currently, there are nine directors on the board. No bylaws have been adopted and there have been no meetings of the board of directors. The board of directors may appoint committees but none have been formed yet.

The directors elected and serving as of the examination date are as follows:

<u>Name</u>	<u>Principal Occupation</u>
Mr. Steve P. Gaal, III	President/Chief Executive Officer Delta Dental Plan of Missouri
Mr. Richard W. Klassen	Vice President – Marketing and Sales Delta Dental Plan of Missouri
Ms. Janice M. Lees	Executive Secretary Delta Dental Plan of Missouri
Mr. Dennis W. Lowry	Finance Manager Delta Dental Plan of Missouri
Ms. Pamela A. Martin	Senior Vice President/Chief Operating Officer Delta Dental Plan of Missouri
Mr. Alcides O. Martinez	Vice President Delta Dental Plan of Missouri
Mr. Karl A. Mudra	Manager IT Delta Dental Plan of Missouri
Ms. Carol A. Nienhaus	Corporate Manager, Underwriting Delta Dental Plan of Missouri
Ms. Pamela M. Summers	Manager Delta Dental Plan of Missouri

The officers serving as of the examination date are as follows:

<u>Name</u>	<u>Office</u>
Mr. Steve P. Gaal, III	President
Mr. Alcides O. Martinez	Secretary
Mr. David Haynes	Chief Financial Officer

These individuals are also officers of Delta Dental Plan of Missouri and have experience in the insurance business.

#### Conflict of Interest

All officers and directors of this Company hold positions with Delta Dental Plan of Missouri, where they are required to submit annual conflict of interest disclosures. The Company intends to continue this process.

#### Corporate Records

A review was made of the articles of incorporation of the Company. The incorporators adopted the articles of incorporation on February 6, 2004. The Company has not adopted any bylaws and no board meetings have been held yet.

### **AFFILIATED COMPANIES**

#### Holding Company, Subsidiaries and Affiliates

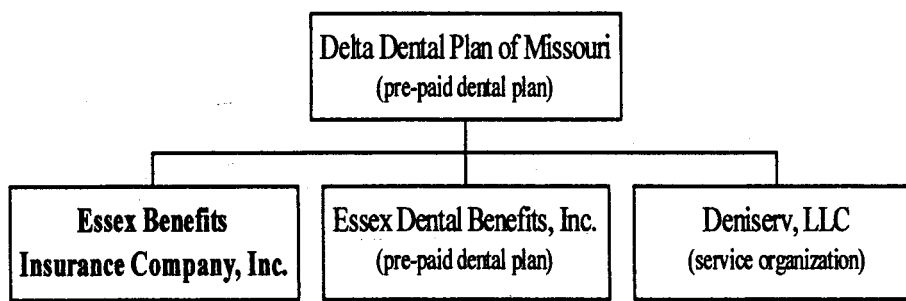
Essex Benefits Insurance Company, Inc. is a member of an insurance holding company system as defined by Section 382.010 RSMo (Insurance Holding Companies - Definitions). Pursuant to Section 382.100 RSMo (Insurance Holding Companies - Registration), every insurer that is subject to

registration shall file a holding company statement within fifteen days after it becomes subject to registration and annually thereafter by March first.

It is recommended that Essex Benefits Insurance Company, Inc. file an Insurance Holding Company System Registration Statement within fifteen days of the issuance of its certificate of authority.

#### Organizational Chart

The following chart shows the direct line of ownership for this company:



#### Intercompany Transactions

Management expects that an agreement will be made between the Company and its parent, Delta Dental Plan of Missouri that will address the allocation of overhead expenses and the method of reimbursement for the general manager position.

It is recommended that this contract be filed with the Missouri Department of Insurance for review prior to execution as provided for by Section 382.195 RSMo (Transactions within a Holding Company System). Although proposed agreements do not have to be approved by the Department, they may be disapproved within thirty days of the filing.

Remaining agreements will be between non-affiliated entities and will cover reinsurance and claims administration, premium billing and customer service functions.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company will be included in the overall risk management program of Delta Dental Plan of Missouri. That risk management strategy includes a policy covering employee theft with a limit of \$300,000. Other forms of liability coverage include general business, automobile, excess umbrella coverage, directors and officers and workers compensation. The Company will not own any real estate or other property, so no coverage is anticipated.

It is recommended that the Company be included as a named insured (in its parent's relevant insurance programs) when its operations commence.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company currently has no employees and has no plans to have any employees. A general manager will be hired to market the Company's products, but that person will be an employee of Delta Dental Plan of Missouri. Expenses incurred will be paid by Delta and reimbursed by the Company.

## **STATUTORY DEPOSITS**

### **Deposits with the State of Missouri**

The funds deposited with the Missouri Department of Insurance as of January 31, 2005, are sufficient to meet the statutory deposit requirements for the state of Missouri as set forth by the provisions of Section 379.010 RSMo (Authorized lines of business; capital and surplus requirements).

The Company is required to maintain \$1,200,000 (measured as the lesser of par value or market value) of acceptable securities with the state of Missouri. The funds on deposit were as follows:



Type of  
Security

Par Value

U.S. Treasury bill

\$1,250,000

Deposits with Other States

None

**INSURANCE PRODUCTS AND RELATED PRACTICES**

Territory and Plan of Operations

The Company plans to offer professional liability coverage for dentists. General liability and property insurance products will also be offered in addition to the professional liability plan. These coverages will be offered to dentists practicing in Missouri. Delta Dental Plan of Missouri estimates that 95% of the dentists in the state are already in its network.

The Company is currently looking for a general manager who will be responsible for marketing directly to dentists. Initially, this will be the sole means of producing business.

Policy Forms and Underwriting Practices

The Company has submitted policy forms to the Department for approval. Dentists Benefits Insurance Company (an Oregon insurance company) will perform underwriting. That company will also administer claims and manage the premium process, including customer service functions.

**REINSURANCE**

The Company has not yet executed any reinsurance agreements, although a broker has been retained to arrange a reinsurance program for the Company.

The Company is currently seeking reinsurance whereby its retention would be between \$250,000 and \$300,000 for each risk. However, 20 CSR 200-1.010(2)(P) notes that a situation where a company's aggregate net retained risk that exceeds 10% of surplus may require additional scrutiny by the Department of Insurance. At present, 10% of surplus would be \$300,000, the upper range of the retention levels being considered by the Company. The Company projects losses for its first three years of operation. This would cause limitations to be exceeded if the \$300,000 retention is selected. The Company may possibly be forced to seek a capital infusion if that happens.

It is recommended that the Company submit a plan clearly outlining how the net retention per risk will be maintained at satisfactory levels.

#### **ACCOUNTS AND RECORDS**

All accounting information will be processed through existing systems owned and managed by Delta Dental Plan of Missouri. Dentists Benefits Insurance Company will be contracted to administer claims, premiums and policyholder information. The Company anticipates using the accounting firm of BKD, LLP of Cincinnati, Ohio as its outside auditor. That firm currently performs the audit for Delta Dental Plan of Missouri.

#### **FINANCIAL PROJECTIONS**

The Company provided pro-forma financial statements that showed losses and declining net worth throughout the three year planning horizon. These estimates appeared reasonable.

## **BALANCE SHEET**

The balance sheet was prepared by the Company and has not been adjusted to fully comply with statutory accounting practices (the Company has not yet filed a quarterly or annual statement).

## **BALANCE SHEET**

As of January 31, 2005

<b>Assets</b>	
Cash	\$1,750,000
Bonds	<u>1,250,000</u>
Total Assets	<u>\$3,000,000</u>
<b>Liabilities</b>	
Total Liabilities	<u>\$ 0</u>
<b>Stockholders' Equity</b>	
Capital Stock	\$ 0
Additional Paid-In Capital	3,000,000
Retained Earnings	<u>0</u>
Total Stockholders' Equity	<u>\$3,000,000</u>
Total Liabilities and Stockholders' Equity	<u>\$3,000,000</u>

## **GENERAL COMMENTS AND RECOMMENDATIONS**

### **Holding Company, Subsidiaries and Affiliates - Page 5**

It is recommended that Essex Benefits Insurance Company, Inc. file an Insurance Holding Company System Registration Statement within fifteen days of the issuance of its certificate of authority.

### **Intercompany Transactions – Page 5**

It is recommended that this contract be filed with the Missouri Department of Insurance for review prior to execution as provided for by Section 382.195 RSMo (Transactions within a Holding Company System).

### **Fidelity Bond and Other Insurance – Page 6**

It is recommended that the Company be included as a named insured (in its parent's relevant insurance programs) when its operations commence.

### **Reinsurance – Page 8**

It is recommended that the Company submit a plan clearly outlining how the net retention per risk will be maintained at satisfactory levels.

## **SUBSEQUENT EVENTS**

None.

## **CONCLUSION**

It is recommended that Essex Benefits Insurance Company, Inc. be issued a certificate of authority to transact business as a stock property and casualty insurance company in accordance with Chapter 379 RSMo, after the above listed comments and recommendations are addressed.

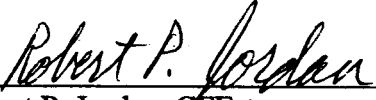
## ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Essex Benefits Insurance Company, Inc. during the course of this pre-licensing examination is hereby acknowledged and appreciated.

## VERIFICATION

State of \_\_\_\_\_ )  
County of \_\_\_\_\_ ) ss

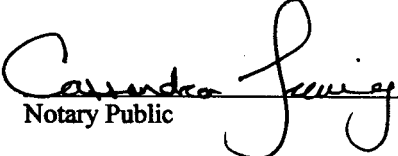
I, Robert P. Jordan, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as found reasonably warranted from the facts.

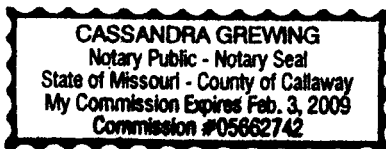
  
Robert P. Jordan, CFE,  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 23 day of March, 2005.

My commission expires:

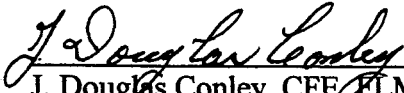
2/3/2009  
Date

  
Cassandra Grewing  
Notary Public



## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARe  
Audit Manager  
Missouri Department of Insurance



Delta Dental of Missouri

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St. Louis, MO 63127-1702  
www.deltadentalmo.com  
(314) 656-3000  
Fax: (314) 656-2900  
Toll Free: (800) 392-1167

March 4, 2005

RECEIVED  
MAR 07 2005  
MO INS DEPT

Mr. Kirk Schmidt, Director  
Division of Financial Regulation  
Missouri Department of Insurance  
301 West High Street Room 530  
Jefferson City MO 65101

Re: Essex Benefits Insurance Company, Inc.

Dear Kirk:

Enclosed are the General Comments and Recommendations as given to us by Examiner Robert Jordan. Robert reviewed this document with Denny Lowry and me at the conclusion of his exam.

We expressed to Robert our commitment, and we commit to you, our intention to fully comply with his recommendations. It is our understanding that these recommendations can be satisfied after the issuance of the license.

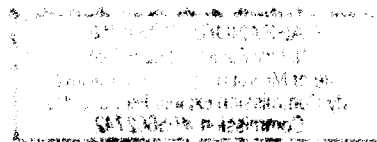
I would like to take a second to mention Robert's professionalism and helpful attitude. I firmly believe that he saw that we are trying to set up a company with all the proper safeguards and in compliance with Missouri statutes and regulations.

I am also very appreciative of the guidance and advise that we have received from you, Mark, Craig, Brenda and Cindy Monroe.

Sincerely,

Al Martinez

VP Government & Dental Affairs



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